

THE ADAMS GROUP, LLC

CERTIFIED
PUBLIC
ACCOUNTANTS

June 17, 2019

To Board of Directors
Southeast Metro Stormwater Authority
Centennial, Colorado

Dear Board Members

We have audited the financial statements of the Southeast Metro Stormwater Authority (Authority) for the year ended December 31, 2018, and have issued our report thereon dated June 17, 2019.

Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards as well as certain information related to the planned scope and timing of our audit. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Authority are described in Note 1 to the financial statements. We noted no transactions entered into by the Authority during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period. As described in Note 13 to the financial statements, the Authority did early adopt Governmental Accounting Standards Board Statement No. 89 *Accounting for Interest Cost Incurred before the End of a Construction Period*. As a result, interest is no longer capitalized on construction projects.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

- The amount stormwater fees receivable that will be collected in future periods
- The useful lives used in recognizing depreciation of property (allocating costs of assets to operations over time), and
- The timing and amounts to be paid out for reimbursement agreements.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. We proposed audit adjustments related to partner contributions and also for fees receivable.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditors' report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated June 17, 2019.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Authority's financial statements or a determination of the type of auditors' opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as Authority's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Current Year Comments

Late Fees

The Authority does charge a handling fee of \$23 but no other late fees for unpaid stormwater fees. This late fee is not charged to non-profit customers. It may cost the Authority more than the handling fee to collect late fees. In addition, charging a higher late fee may induce customers to prioritize paying the fee in a timely manner. We recommend that the Authority review the amounts charged to customers for late remittances.

Compensating Controls

The Authority has undergone significant personnel changes. Due to the size of the Authority, compensating internal controls provide assurance that transactions are properly posted and that fraudulent activity does not occur within the organization. We recommend that the Authority review how transactions are processed to ensure that compensating controls are in place. The staff of CliftonLarsonAllen (CLA), or any other outside accounting consultant, and their duties should be included in this review.

GASB Pronouncements

The Governmental Accounting Standards Board (GASB) has been busy over the last several years. They have issued two pronouncements which the Authority should begin to implement now.

The first of these is GASB issued Statement No. 84 *Fiduciary Activities*. This statement will have to be implemented in 2019. The Authority is going to have to determine if it is holding funds as a custodian for anyone and how those funds should be reported. CLA raised the issue of whether amounts held as collateral should be reported as a fiduciary fund. We contacted GASB who believes that collateral is held for the benefit of Authority and therefore should be reported as a

liability of the Authority. The Authority should continue to review transactions to determine if they meet the definition of a fiduciary transaction.

The second pronouncement is Governmental Accounting Standards Board Statement No. 87 *Leases*. This statement will need to be implemented in 2020. If the Authority is the lessee, operating leases will be recorded as debt in the financial statements and offset by a right to use asset. What may be more difficult is if the Authority is the lessor and will need to mirror this accounting. The first step in this process will be for the Authority to prepare a comprehensive list of all leases it has entered into, both as the lessee and the lessor. From this list the Authority will need to determine the proper accounting treatment of each lease.

Board Oversight

The Authority sold a trailer to a SEMSWA staff member. We have no reason to believe that the transaction was fraudulent or that the transaction was not completed at market value. However, due to the nature of the transaction we would recommend that the Board consider formally reviewing and approving these type of transactions.

Other Matters

We applied certain limited procedures to management's discussion which is required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

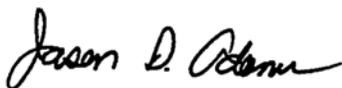
We were engaged to report on the budgetary information which accompanies the financial statements but is not RSI. With respect to this supplementary information, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

We thank you for this opportunity to be of service to the Southeast Metro Stormwater Authority. We also want to thank Paul Danley, Dave Agee, Roxi Jones, Kevin Collins and Vy Nguyen and SEMSWA staff for their assistance during the audit.

Restriction on Use

This information is intended solely for the use of the Board of Directors and management of the Southeast Metro Stormwater Authority and is not intended to be and should not be used by anyone other than these specified parties.

Yours truly,



Jason D. Adams, CPA
The Adams Group, LLC